

GAO

Report to the Chairman, Subcommittee
on Defense, Committee on
Appropriations, House of
Representatives

November 2002

MILITARY PERSONNEL

Management and Oversight of Selective Reenlistment Bonus Program Needs Improvement



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-03-149](#), a report to the Chairman, Subcommittee on Defense, Committee on Appropriations, House of Representatives

MILITARY PERSONNEL

Management and Oversight of Selective Reenlistment Bonus Program Needs Improvement

Why GAO Did This Study

Because of the recent growth in DOD's Selective Reenlistment Bonus Program, the House Appropriations Committee asked GAO to determine (1) the extent to which the services have followed their criteria for managing their programs and (2) whether DOD has provided adequate guidance for and oversight of the program.

What GAO Recommends

GAO recommends that until DOD issues required program guidance

- the services manage their programs to stay within requested budgets and
- the services adhere to their established guidance. The Army should establish specific guidance for selecting specialties for inclusion in its program.

GAO also recommends that the Secretary of Defense require the Undersecretary for Personnel and Readiness to

- issue an instruction that provides the services with guidance for administering and selecting specialties for inclusion in their Selective Reenlistment Bonus Programs, and
- conduct annual reviews of the services' programs as required by DOD's directive.

DOD Comments

DOD concurred or partially concurred with our recommendations.

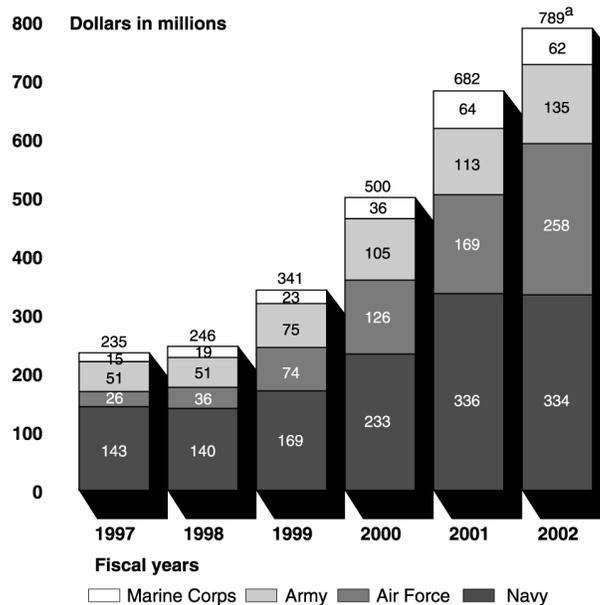
www.gao.gov/cgi-bin/getrpt?GAO-03-149.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or stewartd@gao.gov.

What GAO Found

The Navy and Air Force have not used all of the criteria they have established for selecting critical military specialties eligible for bonuses under their Selective Reenlistment Bonus Programs. The Army's guidance does not include specific criteria for selecting critical specialties. Since these services have not used all of their criteria, the number of eligible specialties and the number of enlisted personnel who receive bonuses have expanded. Moreover, the services did not manage their programs to stay within their budgets appropriated by Congress. The Department of Defense's (DOD) budget for the Selective Reenlistment Bonus Program has more than tripled in recent years—from \$235 million in fiscal year 1997 to an estimated \$789 million in fiscal year 2002.

Services' Selective Reenlistment Bonus Program Budgets, Fiscal Years 1997-2002



^aCurrent estimate.
Source: DOD's budget justification documents.
Note: The Marine Corps began implementation of lump sum payments in fiscal year 2001.

DOD has not provided adequate guidance for and oversight of its Selective Reenlistment Bonus Program. DOD canceled an instruction that established criteria for selecting specialties for the program. Without this instruction, DOD cannot be sure that the program is being implemented as intended. Also, DOD has not reviewed the services' processes for selecting critical specialties or for establishing their corresponding bonus levels, despite requirements to do so annually. Thus, DOD has not ensured that the services are implementing their programs appropriately to help improve short-term retention in critical military specialties.

Contents

Letter		1
	Results in Brief	1
	Background	4
	Not Using All Criteria Expanded the Number of Specialties and Reenlistees	9
	DOD Has Not Provided Adequate Guidance and Oversight	14
	Conclusions	17
	Recommendations for Executive Action	18
	Agency Comments and Our Evaluation	18
Appendix I	Scope and Methodology	22
Appendix II	How the Selective Reenlistment Bonuses Are Paid	24
Appendix III	Growth of the Services' Selective Reenlistment Bonus Programs and Initial Payments	26
	Program Growth	26
	Growth in Initial Payments by the Services	27
Appendix IV	Comments from the Department of Defense	31
Tables		
	Table 1: Selective Reenlistment Bonus Program Characteristics by Service, Fiscal Year 2001	8
	Table 2: Selective Reenlistment Bonus Program Characteristics by Service, Fiscal Years 1997 and 2001	11
	Table 3: Eligibility for Zones A, B, and C under the Selective Reenlistment Bonus Program	25
Figures		
	Figure 1: Services' Selective Reenlistment Bonus Program Budgets, Fiscal Years 1997-2002	6
	Figure 2: Cost of the Selective Reenlistment Bonus Program in Constant 2002 Dollars, Fiscal Years 1990-2002	26

Figure 3: Army’s Selective Reenlistment Bonus Program’s Initial Payments, Budget Request, and Reported Expenditures, Fiscal Years 1997-2002	27
Figure 4: Navy’s Selective Reenlistment Bonus Program’s Initial Payments, Budget Request, and Reported Expenditures, Fiscal Years 1997-2002	28
Figure 5: Marine Corps’ Selective Reenlistment Bonus Program’s Initial Payments, Budget Request, and Reported Expenditures, Fiscal Years 1997-2002	29
Figure 6: Air Force’s Selective Reenlistment Bonus Program’s Initial Payments, Budget Request, and Reported Expenditures, Fiscal Years 1997-2002	30

Abbreviations

DOD	Department of Defense
GAO	General Accounting Office



G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

November 25, 2002

The Honorable Jerry Lewis
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

Established by Congress in 1974, the Department of Defense's (DOD) Selective Reenlistment Bonus Program for enlisted military personnel is DOD's primary tool for addressing short-term retention problems in critical military specialties (or skills). It allows the services to pay bonuses ranging from a few thousand dollars up to \$60,000 to entice enlisted personnel in selected specialties to reenlist for another term in the military. The bonus amounts vary, mainly on the basis of the services' needs in certain critical specialties and the length of reenlistment. Fifty percent of the bonuses are paid in initial bonus payments and the remaining 50 percent in equal anniversary payments for each year of reenlistment. Between fiscal years 1997 and 2002, the cost of this program more than tripled—from \$235 million in fiscal 1997 to an estimated \$789 million in fiscal 2002. The services' total budget requests for the program have continued to increase even though the U.S. economy has slowed.

Concerned about the recent growth of DOD's Selective Reenlistment Bonus Program, you asked us to review how the military services are administering this program to retain enlisted personnel in critical military specialties. Specifically, our objectives were to determine (1) the extent to which the services followed their criteria for managing the Selective Reenlistment Bonus Program and (2) whether DOD provided adequate guidance for and oversight of the program.

Our work was limited to the services' Selective Reenlistment Bonus Programs that encompassed enlisted specialties between fiscal years 1997 and 2002. Our report is limited to data through fiscal year 2001, the last year for which official program data are available. We conducted our review from January through August 2002 in accordance with generally accepted government auditing standards. (See app. I for more information on our scope and methodology.)

Results in Brief

The Navy and Air Force have not used all of the criteria established in their guidance for selecting critical military specialties eligible for bonuses under their Selective Reenlistment Bonus Programs. For example, although the Navy's regulations require a "balanced application" of all the

criteria used for determining which occupations belong in the program, according to Navy officials, an occupation must meet only one of five criteria to become eligible. According to a DOD review of the selective reenlistment bonus program, this is not appropriate since a particular skill could be a good candidate on the basis of several criteria but inappropriate on the basis of only one. The Army's guidance does not include specific criteria for selecting critical specialties, meaning that the Army can select any number of specialties. Our review found that Marine Corps managers generally used all of the criteria as required. Since 1997, the services have expanded the number of eligible specialties and the number of enlisted personnel who receive reenlistment bonuses. For all the services combined, the total number of reenlistees receiving bonuses more than doubled, from approximately 23,000 in fiscal year 1997 to almost 59,000 in fiscal 2001. At the same time, average bonuses have increased. Moreover, during the same period, the Army, Navy, and Air Force did not manage their programs to stay within their budgets appropriated by Congress. Specifically, although Congress appropriated an additional \$165 million above the services' budget requests during fiscal years 1997-2001, the three services spent over \$240 million dollars more on initial bonus payments than Congress had appropriated. These factors—the inconsistent use of criteria, increases in the number of specialties and reenlistees, paying higher bonuses, and not managing their programs to stay within appropriated budgets—have contributed to program costs that have more than tripled since fiscal year 1997.

DOD has not provided adequate guidance for and oversight of its Selective Reenlistment Bonus Program. While DOD issued a directive and an instruction in 1985 to provide the services with guidance for administering their programs, it canceled the instruction in 1996. The instruction established criteria that the services should apply when selecting specialties for inclusion in the program. Without this instruction, DOD cannot be sure that the program is being implemented as intended and that adequate internal controls are in place to govern the operations of the services' programs. Also, DOD has not reviewed the services' processes for selecting critical specialties, despite requirements in the directive to do so annually. Thus, DOD has not ensured that the services are implementing their programs appropriately to help improve short-term retention in critical military specialties. Although we raised similar concerns in a 1996 report, DOD has taken no action on our recommendation to provide more explicit guidance regarding the selection of critical specialties. Consequently, the problems we identified then remain unaddressed today. Although DOD's comptroller reviews the services' annual program budget requests, these budget reviews do not

include a substantive review of the program. For example, one review failed to discover a flawed budget estimate of \$34 million in unneeded funding for anniversary payments.

We are making recommendations to improve the services' management of the Selective Reenlistment Bonus Program and DOD's oversight responsibilities. In response to our report, DOD disagreed with our conclusion that it cannot be sure that the Selective Reenlistment Bonus Programs are being implemented as intended. DOD stated that the criteria that the services use to administer their programs are sound and that they allow the services to target their resources to meet the services' unique retention needs. DOD concurred with our recommendation to issue an instruction that provides the services with guidance for administering their programs and partially concurred with our other recommendations. In addressing our recommendations, DOD raised concerns about the services' potential loss of flexibility to respond to external factors and objected to an additional administrative requirement. Finally, DOD stated that the program is routinely reviewed and that each service prepares a plan for using the bonuses that is carefully reviewed as part of the budget process. The agency comments section of this report contains more details on DOD's positions and our response to them.

Background

In 1974, DOD requested congressional approval to target its reenlistment bonus program toward critical specialties where it was experiencing staffing shortfalls. Before 1974, the military had provided a \$2,000 reenlistment bonus for all servicemembers willing to reenlist. During that year, DOD raised concerns that the bonus program was not focused enough to meet the services' needs. In 1974, Congress authorized the use of selective bonuses, which gave the services flexibility to adjust the bonuses paid to reenlistees to aid in staffing the most hard-to-fill critical specialties.¹ Overall, the Selective Reenlistment Bonus Program is intended to increase reenlistments in specialties deemed critical by the Secretary of Defense.

To implement the Selective Reenlistment Bonus Program, DOD issued a directive in 1985,² updated in 1996, which assigns specific responsibilities for administering the program to the Office of the Secretary of Defense and to the services' Secretaries. Under this directive, the Assistant Secretary of Defense for Force Management Policy, under the Under Secretary of Defense for Personnel and Readiness, is responsible for establishing procedures for administering the selective reenlistment bonus program. Specifically, the Assistant Secretary of Defense for Force Management Policy is responsible for establishing (1) criteria for designating military specialties that qualify for bonuses, (2) criteria for individual members' eligibility for bonuses, and (3) reporting and data requirements for the annual review and evaluation of programs as well as individual services' requests for military skill designations. In addition, according to the DOD directive, the Assistant Secretary of Defense for Force Management Policy is responsible for annually reviewing and evaluating the services' enlisted personnel bonus programs in conjunction with the annual budget cycle. These reviews are to include an assessment of the criteria used for designating critical military specialties. As a result of these reviews, the Office of the Secretary of Defense is to make the revisions needed to attain specific policy objectives.

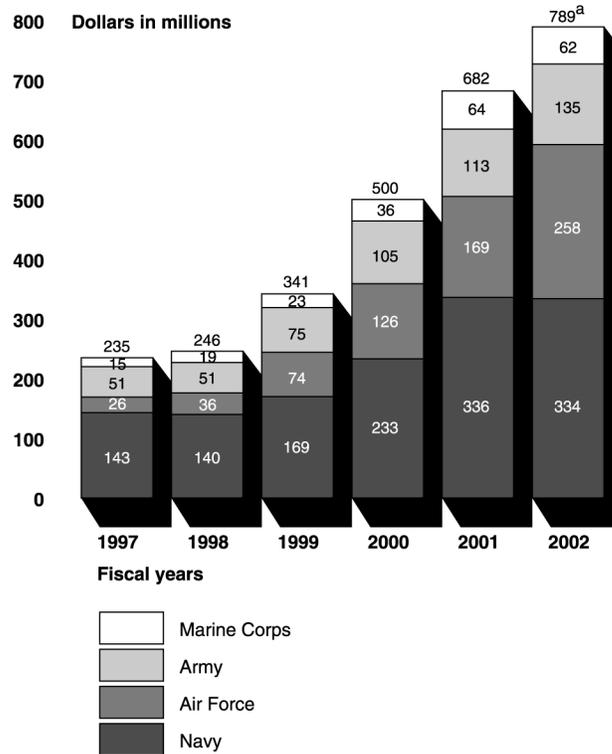
¹ The authority for the reenlistment bonus is codified at 37 U.S.C. 308.

² DOD Directive Number 1304.21.

At the same time that DOD issued its 1985 directive, it issued an instruction providing the services with guidance for managing their programs. However, this instruction was canceled in 1995, and replacement guidance has not been issued, although the updated overarching directive remains in effect. DOD did not issue replacement guidance because of administrative and legal questions that have only recently been resolved, thus clearing the way for reissuance of the guidance. The canceled instruction was to require the services to provide a balanced evaluation of five factors in identifying critical specialties: a consideration of (1) serious understaffing in adjacent years, (2) persistent shortages in total career staffing, (3) high replacement costs, (4) the arduousness or unattractiveness of the work, and (5) whether the specialty is essential to the accomplishment of defense missions. In addition, the instruction was to require that a reasonable prospect must exist for enough improvement in the occupation to justify the cost of providing the bonus. The instruction was also to require the services to provide DOD with reports on the status of their programs and on the status of the specialties included in their programs.

The Selective Reenlistment Bonus Program has experienced substantial cost growth, as shown in figure 1. DOD's budget for the Selective Reenlistment Bonus Program has more than tripled in recent years—from \$235 million in fiscal year 1997 to an estimated \$789 million in fiscal 2002. The Air Force's reenlistment bonus budget increased proportionately more than the other services—from \$26 million in fiscal year 1997 to over an estimated \$258 million in fiscal 2002.

Figure 1: Services' Selective Reenlistment Bonus Program Budgets, Fiscal Years 1997-2002



^aCurrent estimate.

Source: DOD's budget justification documents.

Note: The Marine Corps began implementation of lump sum payments in fiscal year 2001.

How the Selective Reenlistment Bonus Program Works

DOD's Selective Reenlistment Bonus Program currently allows the services to pay reenlistment bonuses of up to \$60,000, though the services have set different maximums. The service secretaries designate which specialties are eligible to receive bonuses. (See app. II for more discussion of bonus determinations.) Total bonus amounts are determined by multiplying (1) the service member's current monthly basic pay by (2) the number of additional years of obligated service and by (3) a bonus multiple that can range from 0.5 to 15. The bonus multiples are determined by each service for all specialties they deem critical. For example, an enlistee who earns \$24,000 per year and reenlists for 4 years in an occupation with a multiple of 4 would receive a reenlistment bonus of \$32,000. This amount is calculated by multiplying the monthly basic pay of \$2,000 by the number of reenlistment years (4) and by the multiple (4). The bonus multiples are determined by each service for all eligible specialties, and the occupations that they deem most critical or hardest to fill would generally receive higher multiples. Navy officials told us that they also consider alternative wages that certain specialties can obtain outside of the military when determining the size of the bonus multiplier for a critical specialty.

Each of the services has established its own guidance for implementing its selective reenlistment bonus program. This guidance varies by service. Generally, the services' guidance establishes eligibility criteria for servicemembers and in some cases also defines criteria for selecting specialties for inclusion in the program. The Navy and Marine Corps have adopted all the original criteria that were established by DOD's 1985 program instruction. The Air Force updated its program guidance in 1998, which only partially reflected DOD's original program instruction. This instruction includes the criteria for individual servicemembers' eligibility as well as guidance for the selection of specialties. The Army has established guidance for individual servicemembers' participation in the program but not specific guidance for determining which specialties should be included in the program.

In addition to establishing their own guidance for selecting individuals and occupations to include in the program, the services have also defined some other program characteristics, which also differ between the services as shown in table 1 for fiscal year 2001. While congressional authorization allows the maximum amount of a bonus to be \$60,000 and the maximum multiple to be 15, the services determine their own limit. In fiscal year 2001, the maximum bonus ranged from \$35,000 to \$60,000, and the services' maximum bonus multiple ranged from 5.0 to 8.0. The table also displays the minimum and maximum reenlistment periods.

Table 1: Selective Reenlistment Bonus Program Characteristics by Service, Fiscal Year 2001

Program characteristic	Army	Navy	Marine Corps	Air Force
Maximum bonus	\$40,000 ^a	\$60,000	\$35,000	\$60,000
Maximum multiple	5.0	8.0	5.0	6.0
Minimum obligation	3 years	3 years	4 years	4 years
Maximum obligation	6 years	6 years	6 years	6 years

Source: The services' regulations and guidance.

^aThe Army authorizes two specialties (Satellite Communication Systems Operator-Maintainer and Korean Voice Interceptors) to reenlist for as much as \$40,000 if servicemembers qualify. The Army's remaining occupations are limited to a maximum reenlistment bonus of \$20,000.

The Army, Navy, and Air Force pay bonuses to reenlistees with an initial payment and equal annual installments over the reenlistment period. The initial payment is made at the time of the reenlistment or when the reenlistment period begins and is equal to 50 percent of the total bonus. The remaining 50 percent is paid in equal annual payments over the term of the reenlistment, and the payments are called "anniversary payments." In the example above, the initial 50-percent payment would be \$16,000, and the anniversary payments would be \$4,000 for 4 years. Starting in fiscal year 2001, the Marine Corps began paying the entire bonus in one lump-sum payment at the beginning of the reenlistment period. It is too early to determine what effect this change will have on the operation of the Marine Corps' selective reenlistment bonus program.

Not Using All Criteria Expanded the Number of Specialties and Reenlistees

For fiscal years 1997-2001, some services did not consistently apply all the criteria they had established to select which specialties they include in the reenlistment program. By not doing so, they broadened the number of eligible specialties and reenlistees who received bonuses. While achieving higher reenlistments, the services have not managed their programs to stay within their congressionally appropriated budgets. As a result, the services spent more on their program than was appropriated in each of fiscal years 1997-2001.

Some Services Do Not Consistently Use All of the Criteria They Have Established for Selecting Specialties That Receive Bonuses

Some services are not consistently using all of the criteria they have established to select critical specialties for the Selective Reenlistment Bonus Program. The Navy and Marine Corps have adopted the original DOD instruction (see background, p. 6), which requires a balanced application of all five criteria to identify critical specialties. Marine Corps officials told us that they utilize all of these criteria in selecting specialties eligible for a bonus. However, the Navy uses only the following four criteria when identifying specialties for inclusion in the program: (1) severe undermanning, (2) severe career undermanning, (3) high training and replacement costs, and (4) skills essential to accomplishing the defense mission. According to Navy officials, any one of these criteria qualifies a specialty for inclusion in the program. According to DOD's only review of the selective reenlistment bonus program, this is not appropriate, since a particular skill could be a good candidate on the basis of several criteria, but inappropriate on the basis of one.

While the Air Force considers numerous factors when making determinations about which occupations to include in its program, it does not prioritize its occupations as required by Air Force instructions. As a result, the bonuses paid may not reflect the importance of the specialty. The Air Force has adopted most of the original DOD criteria; however, it does not require a balanced application of those criteria. The Air Force's criteria include (1) shortfalls in meeting current and projected reenlistment objectives (reenlistment rates and the size of specific-year groups, as well as adjacent-year groups), (2) shortages in current and projected noncommissioned officer manning, (3) high training investment and replacement cost for a skill, (4) expected improvement in retention resulting from designation as a selective reenlistment bonus skill, and (5) priority of the skill. An Air Force review board considers the criteria, and then a professional judgment is made on whether to include a skill in the program.

The Army has not adopted all of DOD's original criteria. The Army has established regulations governing the eligibility of individuals for inclusion in the program, but it has not established regulations for selecting occupations to include in its program. As a result, the specialties that the Army selects for bonuses may not be critical. According to Army officials, the criteria can fluctuate depending on their current needs. During fiscal year 2002, the Army's criteria for selection of critical specialties included (1) budget constraints, (2) current and projected strengths, (3) retention rates, (4) training constraints, (5) replacement costs, (6) priority military occupational specialties, and (7) shortages within mid-grade levels. The Army uses understaffing as the primary criterion for designating occupations as critical and eligible for bonuses.

Growth in the Number of Specialties and Reenlistees

The services, with the exception of the Marine Corps, have not been applying all of their criteria for selecting specialties to include in their Selective Reenlistment Bonus Programs. This has led to an increase in the number of specialties that the services made eligible for reenlistment bonuses during fiscal years 1997-2001. As the number of specialties eligible for bonuses grew, so did the number of reenlistments receiving bonuses from each service. (See table 2.)¹ In fiscal year 2001, the Navy awarded bonuses to the smallest percentage of specialties of the services, but those awards accounted for the largest number of bonus recipients. The Air Force awarded bonuses to approximately 80 percent of its specialties, which were paid to 42 percent of its reenlistees.

Between 1997 and 2001 all of the services increased the number of specialties for which they offered reenlistment bonuses. As a result, there was an increase in the total number of reenlistees who got bonuses. For all the services combined, the total number of reenlistees receiving bonuses more than doubled—from approximately 23,000 in fiscal year 1997 to almost 59,000 in fiscal 2001. Along with this growth in the number of specialties and reenlistees receiving bonuses has been an increase in the average bonus paid—from approximately \$5,500 in fiscal year 1997 to over \$8,000 in fiscal 2001. In constant 2001 dollars, the average initial bonus payment has grown from approximately \$5,900 in fiscal year 1997 to over

¹ DOD's 2002 *Quadrennial Review of Military Compensation* stated that use of the program had increased substantially since 1997 as the services began to report recruiting and retention problems. The report states the increased use of selective reenlistment bonuses as a key factor in the services' meeting aggregate retention objectives over the past 3 years.

\$8,000 in fiscal 2001. The Navy had the greatest increase in average initial payments—from over \$7,200 in fiscal year 1997 to almost \$11,000 in fiscal 2001. The Air Force average initial payment also increased—from approximately \$3,900 in fiscal year 1997 to \$7,100 in fiscal 2001. Unlike the other services, the Army’s average bonus fell by \$500 between fiscal years 1997 and 2001.

Table 2: Selective Reenlistment Bonus Program Characteristics by Service, Fiscal Years 1997 and 2001

Program characteristic	Service									
	Army		Navy		Marine Corps		Air Force		Total	
Fiscal year	1997	2001	1997	2001	1997	2001	1997	2001	1997	2001
Number of bonus specialties	72	124	204	219	133	163	68	158	477	644
Number of specialties ^a	267	274	1,146 ^b	1,153 ^b	424	397	197	197	2,034	2,021
Percentage of specialties	27	45	18	19	31	41	35	80	23	33
Number of bonus recipients	6,726	17,125	11,580	21,356	1,414	3,123	3,612	17,336	23,332	58,940
Number of reenlistees	78,478	63,059	40,947	42,270	13,486	13,830	43,836	40,865	176,747	160,024
Percentage receiving bonus	9	27	28	51	10	23	8	42	13	37
Average initial payment ^c	\$4,400	\$4,218	\$6,764	\$10,957	\$5,442	\$15,065 ^d	\$3,598	\$7,089	\$5,512	\$8,079
Average initial payment in constant 2001 dollars	\$4,721	\$4,218	\$7,258	\$10,957	\$5,840	\$15,065	\$3,861	\$7,089	\$5,915	\$8,079

Source: The services’ budget justification documents and other information provided by the services.

^aThe number of service specialties varied over this time period for some services as some occupations were merged or eliminated.

^bNavy specialties included 107 ratings plus 1,039 skill classifications in 1997 and 92 ratings plus 1,061 skill classifications in 2001.

^cCurrent-year dollars.

^dThe Marine Corps implemented a lump-sum (100 percent) payment option in fiscal year 2001. Under the anniversary payment method, the initial payment would have been \$7,532.50.

Services’ Programs Not Managed to Stay Within Appropriated Budgets

From fiscal year 1998 through fiscal 2001, none of the services’ Selective Reenlistment Bonus Programs stayed within their appropriated program budgets. Rather, with the exception of the Marine Corps, the services reprogrammed or realigned funds from other programs within the enlisted personnel budget to make more bonus payments than they were originally funded to pay. The services are able to do this under their budget authority. However, they are restricted from shifting funding amounts of

over \$10 million from other budget authority lines, such as from officer pay programs, without seeking congressional prior approval for reprogramming of resources.

Overall, we found that the Army, Navy, and Air Force did not manage their programs to stay within their budgets appropriated by Congress. Rather, with the exception of the Marine Corps, the services have allowed their program to continue running the entire fiscal year and have exceeded their budget appropriation during the past several years. (See app. III for more detail on budget requests and actual initial bonus payments.) Even though Congress provided \$165 million in additional funding during fiscal years 1997-2001, the three services spent approximately \$240 million dollars more on initial bonus payments than Congress had appropriated. During fiscal years 1997-2001, the Navy exceeded its appropriated budget by more than \$121 million; the Air Force, by \$70 million; and the Army, by about \$49 million. However, these services pay 50 percent of their bonuses up front as initial payments and pay the remaining 50 percent in annual installments over the reenlistment period. Consequently, they have to pay an additional \$240 million in anniversary payments in future years. This means that the total cost of the over expenditures on initial payments made during fiscal years 1997-2001 could be as much as \$480 million.

Management of Selective Reenlistment Bonus Program

Although the Army, Navy, and Air Force have periodically reviewed their programs during the fiscal year, they have made few adjustments to the program to stay within their appropriated budgets. With the exception of the Marine Corps, the services either do not establish goals for improvement in critical specialties or manage their programs to stay within the goals they have set. For example, while the Navy does establish retention goals for specialties included in the program, it does not prioritize its specialties and modify the bonuses, as needed, to stay within those goals. For example, in fiscal year 2001, the Navy exceeded its goals in 75 specialties by more than 110 percent. By exceeding its goals in some occupations, the Navy may be neglecting other specialties that could utilize increased bonuses to improve retention. For example, we found 64 specialties that were below 90 percent of the retention goal for fiscal year 2001. In 50 cases, the Navy reduced the multiples (12) or made no change (38) for these specialties from fiscal year 2000.

During fiscal year 2002, the services experienced a strong recruiting and retention year, which, according to service officials, caused the Army and Navy to scale back or close their programs. The Army expected to exceed its fiscal year 2002 program budget estimates by over \$45 million and

closed its program 45 days prior to the end of the fiscal year. These actions were taken after both services had exceeded their budgets for fiscal year 2002. The Navy lowered the bonus amounts paid during fiscal year 2002 after acknowledging that it would exceed its fiscal year 2002 appropriation if these actions were not taken. Starting in fiscal year 2001, the Marine Corps instituted a plan to close its program when the budget limit was met. The Marine Corps closed its program in July 2002, since the appropriated budget was met at that time.

Factors Influencing Growth

According to some service officials, three key factors combined to cause the services to increasingly rely on the Selective Reenlistment Bonus Program to staff critical specialties during fiscal years 1997-2001. These factors were (1) the downsizing of the U.S. military forces during the 1990s, (2) a decline in recruiting in the early to mid-1990s, and (3) fewer reenlistments during the late 1990s. The combination of these factors, according to service officials, has contributed to growth in costs during fiscal years 1997-2002. According to the Congressional Research Service, the shortfalls in recruiting and retention in fiscal years 1998-1999 were the first since fiscal 1979.

Regarding downsizing, the U.S. military substantially reduced its number of active-duty military personnel after the end of the Cold War. During fiscal years 1990-1999, the number of active-duty enlisted personnel declined from 1.7 million to 1.2 million—approximately 34 percent. Part of this reduction in the military force was due to a reduction in the services' recruiting goals. For example, DOD's recruiting goals decreased consistently from 229,172 in fiscal year 1990 to as low as 174,806 in fiscal 1995 before increasing again in the years following. One of the intended purposes of reducing these goals was the desire to arrive at a smaller force by decreasing new enlistments instead of forcing more experienced personnel to leave the military. However, according to DOD officials, fewer new enlistments in the mid-1990s produced too few enlisted personnel to meet the services' needs for mid-level personnel (those with 5-10 years of experience) in the late 1990s.

The services had varying degrees of success in achieving their higher recruiting goals in the late 1990s. For example, in fiscal year 1999, the Army failed to meet its goal—recruiting only 95 percent of its target. The Navy and the Army also failed to meet their recruiting goals in fiscal year 1998, recruiting 88 and 92 percent, respectively. These failures to achieve recruiting goals were perceived by the services as a serious problem because of its potential impact on the force structure.

The services also experienced retention problems that coincided with the recruiting shortfalls. While the Army achieved its reenlistment goals for first-term and mid-career enlisted personnel, shortfalls occurred in the career reenlistment term. For example, during fiscal years 1996-1998, the Army's reenlistment rates for the eligible population decreased from 65.7 to 60.1 percent. First-term reenlistment rates for the Navy decreased consistently during 1996-1999 from a reenlistment rate of 32.9 percent of the eligible population to 28.2 percent. Also, during fiscal years 1998-2000, the Air Force did not meet its aggregate retention goal of 55 percent for first-term personnel, getting 54, 49, and 52 percent, respectively.

DOD Has Not Provided Adequate Guidance and Oversight

DOD canceled the instruction containing criteria for the Selective Reenlistment Bonus Program in 1995 and has not replaced it. According to DOD officials, there were administrative impediments that involved the recoupment of reenlistment bonuses from some servicemembers who leave the military because of disciplinary actions initiated by DOD. These administrative impediments were resolved in fiscal year 2002 and have cleared the way for issuance of a new DOD instruction. Also, DOD has not provided adequate oversight nor conducted the reviews over the program that its directive, which is still in effect, requires. In the absence of DOD criteria and oversight, the services have not been held accountable for using any criteria to designate critical specialties or to report to DOD how they select the specialties. As a result, the services have expanded their programs to include specialties that may not be critical to their missions. In addition, the DOD comptroller conducts only limited reviews of the budgets the services submit for the program each year. As a result, DOD has not assured that the increases in the services' Selective Reenlistment Bonus Programs budgets each year were justified.

DOD Has Not Replaced Essential Program Guidance

The Office of the Secretary of Defense has not followed the DOD directive requiring it to establish guidance for the services to use in administering the reenlistment bonus programs. According to the directive, DOD is responsible for providing the services with guidance to ensure proper program administration through an instruction on (1) establishing criteria for designating the military skills eligible for bonuses, (2) determining individual members' eligibility for awards, and (3) establishing reporting and data requirements for the review and evaluation of annual programs and individual requests for military skill designations. Without this instruction, the services have not had clear direction on how to manage their programs. DOD is currently updating the instruction, and officials stated that they intend to issue it sometime during 2003.

DOD Oversight Has Been Limited

The Office of the Secretary of Defense has provided only limited oversight, which has resulted in little feedback to the services on the administration of their selective reenlistment bonus programs. DOD has conducted only one comprehensive review of the program (in 1991) to determine the best use of resources. Currently, although the Office of the Secretary of Defense is responsible for monitoring and conducting ongoing oversight, it does not conduct detailed annual reviews of the program as required by its directive. Furthermore, although DOD's Comptroller conducts periodic program reviews, these reviews are limited to the services' budget submissions and their justification. In addition, the comptroller's recently initiated recruiting and retention hearings devote only a small part of the meetings to reviewing each service's Selective Reenlistment Bonus Program.

DOD Has Conducted No Comprehensive Program Review Since 1991

The Office of the Secretary of Defense has not complied with its directive that requires that the office conduct annual Selective Reenlistment Bonus Program reviews. These reviews are intended to assess the services' programs in conjunction with the annual program budget reviews and to result in recommendations to the Secretary of Defense for measures required to attain the most efficient use of resources. DOD acknowledged that these reviews have not been conducted in recent years, but it is currently taking steps to restart reviews of the services' programs and told us that it plans to complete these reviews by March 2003. In addition, DOD is required by directive to annually review the criteria used to designate eligible military skills and to make any changes needed to attain specific policy objectives. However, DOD has not conducted these annual reviews. Moreover, it has not reviewed the services' processes for establishing their reenlistment bonus programs.

The last comprehensive review of the program was conducted in 1991. However, the services were not required to respond to the findings of the 1991 review and consequently did not take any action on the findings, and DOD has not conducted any subsequent reviews of this nature. The 1991 review found that the program was generally well managed. However, the review raised concerns about the general nature of the guidance provided to the services and raised questions about 34 percent of the services' specialties eligible for bonuses. In addition, the review noted that a "balanced" application of all the criteria contained in DOD's instruction was needed to ensure that only critical specialties were selected. The report specifically noted that staffing shortfalls alone were not sufficient criteria to qualify an occupation for inclusion in the program. While chronically undermanned, the report noted that musicians would not be considered critical for the fulfillment of defense missions and thus would

not receive a bonus. The report noted that none of the services, at that time, provided selective reenlistment bonuses for musicians. However, the Army is currently offering bonuses to some musician specialties on the basis of chronic understaffing in those areas.

In a 1996 report, we raised similar concerns regarding the management and oversight that DOD was providing the program with in, among other aspects, determining which skill categories should receive bonuses.² In that report, we noted that the Office of the Secretary of Defense had not provided adequate guidance for and oversight of the Selective Reenlistment Bonus Program. Additionally, we noted that its guidance to the services for determining which specialties categories should receive bonuses was too general in nature. As a result, each service used a different procedure for identifying which specialty categories were to receive retention bonuses. With regard to oversight, while DOD guidance required detailed annual reviews of the specialty categories that the services planned to include in their programs, DOD had not conducted these reviews. Our report recommended that DOD (1) provide more explicit guidance regarding the determination of shortage categories and eligibility for bonuses and require the services to establish and document more specific criteria for determining which skills will receive bonuses and (2) monitor the services' adherence to this guidance. DOD took no action on our recommendations, and the program has continued to grow unconstrained since.

Comptroller Conducts Limited Review of Program Budget Requests

DOD's Comptroller conducts limited annual reviews of the services' program budget submissions. According to the analysts responsible for these reviews, they review high-level program summaries that do not provide insights into the details of how the program is run. They essentially review the services' budget estimates and a small sampling of specialties that the services represent as their top retention-critical specialties. We found that these reviews were limited because of the small number of skills considered by the review, and we questioned some specialties that the services included in their top retention-critical specialties. We found some specialties that had appeared on the services' lists for several years were not receiving the highest bonuses. For example, the Navy listed the service occupation of Cryptologic Technician

² See U.S. General Accounting Office, *Retention Bonuses: More Direction and Oversight Needed*, GAO/NSIAD-96-42 (Washington, D.C.: Nov. 24, 1995).

(Collection)³ as being critically undermanned during fiscal years 1997-2002. However, the bonus multiplier for this specialty has not been higher than 4.5 during this time frame and was lowered to 4.0 in fiscal year 2001. During that year the Navy retained only 160, or 82 percent, of the goal of 194 (out of 431 potential retainees) Cryptologic Technicians.

Because of the general nature of its reviews, the DOD Comptroller's analysts did not identify inaccuracies in the services' budget estimates because of the general nature of their reviews. For example, in two instances, the services overestimated the amount of their anniversary payments and used the additional funds to make initial payments. For example, in fiscal year 2001, the Army overestimated its anniversary payments by \$9 million. In fiscal year 2002, the Air Force overestimated its anniversary payments by approximately \$17 million. According to service officials, these estimates are easy to calculate; since they are obligations incurred from the previous years' bonus programs and are known amounts. These unbudgeted initial payments also resulted in an additional obligation of \$26 million that must be paid in future years, since these services pay 50 percent of their bonuses up front and must pay the remaining 50 percent over the reenlistment period (a total of \$52 million).

Conclusions

The Selective Reenlistment Bonus Program was intended to help the services meet short-term retention problems in selected critical specialties. Instead, the services have broadened the number of specialties included in the program by not using all of their criteria to selectively target critical specialties. As a result, the number of eligible specialties and the corresponding number of enlisted personnel included in the program have increased significantly. The growth in the number of eligible specialties and enlisted personnel who receive reenlistment bonuses may well continue if actions are not taken to constrain this expansion. Actions that may constrain the program's growth include requiring the services' to adhere to criteria they have already established for selecting critical specialties and by DOD's issuing an instruction governing the operation of the program. While several factors influenced the program's growth in

³ Cryptologic Technicians perform a variety of duties at numerous overseas and stateside shore commands; aboard surface ships; and, to a limited degree, aboard aircraft and submarines. Duties include performing the collection and analysis of state-of-the-art communication signals using sophisticated high-powered computers, specialized computer-assisted communications equipment, video display terminals, and electronic/magnetic recorders.

recent years, it is likely that the impact of these factors could have been mitigated if DOD had replaced the canceled instruction and had exercised appropriate oversight. Without an instruction to guide the services, DOD cannot be sure that the program is being implemented as intended and that adequate internal controls are in place to govern the operations of the services' programs. Without clear DOD guidance and oversight, managing the program and justifying its growth are difficult. In 1996, we raised concerns about the lack of oversight that DOD was providing the program in, among other aspects, determining which skill categories should receive bonuses. The Office of the Secretary of Defense could have exercised more effective controls over the services' management of their programs, had it followed our recommendations to provide appropriate guidance and more active oversight.

Recommendations for Executive Action

In the absence of a DOD instruction governing the services' implementation of the program, we recommend that the Secretary of Defense require the services to do the following:

- Apply all the criteria they have established for selecting critical specialties under their Selective Reenlistment Bonus Programs. In the case of the Army, criteria should be established for selecting critical specialties.
- Manage their programs to stay within their appropriations or, if circumstances require, provide the Office of the Secretary of Defense with adequate justification for increased expenditures over appropriated amounts.

To improve DOD's oversight and the services' management of the Selective Reenlistment Bonus Program, we recommend that the Secretary of Defense require that the Undersecretary for Personnel and Readiness

- issue an instruction that provides the services with guidance for administering and selecting specialties for inclusion in their programs and
- conduct annual reviews of the Selective Reenlistment Bonus Program as required by DOD's directive.

Agency Comments and Our Evaluation

DOD provided official comments on a draft of this report. DOD did not agree with the report's conclusion that the Department cannot be sure that the Selective Reenlistment Bonus Programs are being implemented as intended. While DOD stated that program controls are in place to ensure a reasonable balance between oversight and execution, we found that fundamental management controls were not in place. For example, DOD

canceled the key instruction that provides the services with essential guidance for administering their programs 7 years ago and has not replaced it. Also, the comptroller's budget reviews of the services' programs were limited and, in some cases, were not effectively performed. Furthermore, these budget reviews were never intended to provide detailed programmatic oversight. Office of the Secretary of Defense officials told us that detailed programmatic reviews required by DOD's directive had not been conducted since 1991. Consequently, without these essential management controls, it is not clear how the Department can be sure that the program is being implemented as intended.

DOD concurred or partially concurred with our recommendations. Our evaluation of DOD's comments on these recommendations follows:

DOD concurred with our recommendation to issue an instruction that provides the services with guidance for administering their programs. The Department stated that it has drafted and is staffing a new DOD Instruction 1304.22 that will govern the procedures for administering the program.

DOD partially concurred with our recommendation that the Secretary of Defense require the services to apply all the criteria they have established for selecting specialties under their Selective Reenlistment Bonus Programs. DOD stated that its criteria are sound and that the services' processes are balanced. As we noted in our report, the Department's instruction that was canceled required a balanced application of five criteria. We found that the services do not always apply their criteria in a balanced fashion. DOD also stated that, although the Army does not have a regulation governing its Selective Reenlistment Bonus Program, the criteria it uses are sound. However, we found that the Army's criteria are not clearly defined. Therefore, it is difficult to determine whether the criteria are being applied in a balanced fashion. Not using all the criteria allows the number of specialties included in the program to expand with a corresponding increase in reenlistments. For example, the number of Army reenlistments with bonuses more than doubled from approximately 7,000 in fiscal year 1997 to over 17,000 in fiscal 2001. DOD also stated that it does not use the program to address aggregate end-strength goals. We did not intend to infer that the program is being used to meet aggregate end-strength goals. We removed the discussion of the services use of the program to meet aggregate end-strength goals from the report.

DOD partially concurred with our recommendation that the services manage their programs to stay within their appropriations or, if

circumstances require, provide the Office of the Secretary of Defense with adequate justification for increased expenditures over appropriated amounts. DOD stated that, in general, it did not concur with an imposition of new centralized control over the services' budget execution. Furthermore, DOD stated its concern that the services need to be able to respond to changes in external factors during the 2 years between budget submission and program execution. However, as our report points out, DOD has repeatedly exceeded its appropriations during the last 5 fiscal years. For example, during fiscal years 1997-2001, the services spent over \$240 million above their appropriations. Better program oversight and management by DOD would have required the services to justify exceeding their appropriations during this 5-year period. We do not believe that more accountability for budget execution will diminish the services' ability to respond to changing operational needs.

DOD partially concurred with our recommendation that the Office of the Secretary of Defense conduct annual reviews of the Selective Reenlistment Bonus Program. DOD cited the annual reviews conducted by DOD's Comptroller as an example of routine program reviews. However, as we have previously noted, these reviews are limited to the services' budget submissions and justification. And, only a small sample of occupations are included in the budget submission. DOD also stated that part of the budget process includes reviews by the Office of Management and Budget. However, Office of Management and Budget officials told us that their reviews are limited and do not constitute a detailed assessment of the services' programs. DOD's response also stated that its annual defense report will provide a listing of DOD-critical skills and other pertinent information. However, this listing will not represent a detailed programmatic review. DOD's Annual Defense Report is an overarching representation of all DOD programs and does not permit the level of detailed information required to fully assess the Selective Reenlistment Bonus Program.

We continue to believe that our recommendations have merit and have made no adjustments to them. During the course of our review, the House Appropriations Committee directed the Secretary of Defense to report on several aspects of the Selective Reenlistment Bonus Program and to provide the Committee with that report by March 31, 2003. It also directed us to review and assess that report and report back to the Committee by June 1, 2003.

DOD's comments appear in their entirety in appendix IV. DOD also provided technical comments, which we incorporated into the report as appropriate.

We are sending copies of this report to interested congressional committees; the Secretaries of Defense and the Army, Navy, and Air Force; the Commandant of the Marine Corps; and the Director, Office of Management and Budget. We will send copies to other interested parties upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact me at (202) 512-5559 if you or your staff have any questions regarding this report. Key contributors to this report were Donald Snyder, Kurt Burgeson, James Driggins, Marjorie Pratt, Brian James, Jane Hunt, Earl Williams, and Maria-Alaina Rambus.



Derek B. Stewart
Director, Defense Capabilities
and Management

Appendix I: Scope and Methodology

To determine the extent to which the services followed their Selective Reenlistment Bonus Program's management criteria, we reviewed their criteria and other documentation of overall program development and execution. We examined the retention rates as reported by the services as well as prepared program expenditure and growth trends. We then reviewed the services' reported contributing program growth factors: (1) budgetary changes, (2) the effects of downsizing initiated in the early 1990s, and (3) changes in the recruiting and retention climate during the 1990s. We also attended one of the Department of Defense (DOD) Comptroller's quarterly services' recruiting and retention briefings in addition to reviewing materials from previous briefings.

To determine how the selective reenlistment bonus program has been used to address retention problems in specialties of most concern to the services, we reviewed the critical specialties they identified in the selective reenlistment bonus sections of their budget justification books.¹ Since the Air Force did not report its top critical retention occupations in its justification books, we examined the critical occupations listed by the Army, Navy, and Marine Corps for fiscal year 1998 (fiscal year 1999 for the Army) to 2003. More specifically, we identified specialties that appeared on the services' lists for 3 or more years. We then reviewed the history of the bonus multiples that the services applied to these occupations to determine how they were used to address the retention problems in those occupations.

To identify trends in the programs budget, we compared the services' budget requests with their actual budget expenditures for fiscal years 1997–2002. As part of this trend analysis, we reviewed both the initial and anniversary payments made during each of the fiscal years and projected them into the future. We also reviewed congressional actions that took place during this time period. We also conducted trend analyses of the number of reenlistees receiving bonuses, changes in the occupations eligible for bonuses, and changes in the average bonus amounts. We were unable to measure the impact of pay increases on the average bonus amounts during this time frame because the multiples used to calculate the bonuses varied from year to year.

¹ Budget justification books are submitted to Congress each year in support of the services' budget requests.

To assess whether DOD provided adequate program guidance and oversight, we reviewed legislation and DOD directives and instructions governing the program. In addition, we reviewed these materials and evaluated the extent to which the program was meeting its intended purpose as defined by Congress and DOD. We obtained and reviewed the guidance established by the services for implementing their programs. We reviewed the criteria contained within the services' guidance and assessed their adherence to it.

We interviewed DOD and Selective Reenlistment Bonus Program officials and reviewed their program oversight and guidance policies and procedures. These interviews were conducted with officials in the Office of the Under Secretary of Defense (Comptroller); Assistant Secretary of Defense (Force Management Policy); Deputy Chief of Staff for Personnel—Army (Professional Development); Deputy Chief of Staff, Personnel—Air Force (Skills Management); Deputy Chief of Naval Operations (Manpower and Personnel); Deputy Chief of Staff for Manpower and Reserve Affairs—Marine Corps; and Deputy Chief of Staff for Programs and Resources—Marine Corps. We also met with officials from the Office of Management and Budget. We also reviewed our own published report, and data from the Office of the Secretary of Defense, the Congressional Research Service, and RAND. We also obtained data on bonus levels from DOD and the services, the numbers of personnel reenlisting overall and within the program, critical skills, and retention and recruitment data. We reviewed, but did not verify, the accuracy of the data provided by DOD and the services.

Appendix II: How the Selective Reenlistment Bonuses Are Paid

The services use DOD's Selective Reenlistment Bonus Program to help meet their staffing requirements. The selective reenlistment bonus is designed to offer an attractive reenlistment or extension incentive to improve staffing in critical military specialties.¹ The active duty individuals in the critical military specialties who reenlist or extend their enlistments are to serve for the full period of the reenlistment or extension contract.

Under the Selective Reenlistment Bonus Program, there are two methods of bonus payments: (1) initial and/or (2) anniversary. The initial payment is the first installment paid to the individual when the individual reenlists or begins serving the extension. The initial payment is either 50 percent of the total bonus or 100 percent of the total bonus, called the "lump-sum payment." Any remaining bonus is paid in equal annual installments on the anniversary date for the remainder of the reenlistment contract period.

The Office of the Secretary of Defense has established three eligibility zones for the payment of selective reenlistment bonuses. These zones are defined in terms of years of active-duty service. Zone A includes reenlistments falling from 17 months to 6 years of active duty; zone B, from 6 to 10 years; and zone C, from 10 to 14 years. The Selected Reenlistment Bonus multiples are calculated for each of these three zones. (See table 3.) Service members may receive only one selective reenlistment bonus within any one zone and must reenlist or extend their reenlistments for at least 3 years if they accept a bonus.

¹ A military specialty is an element of the enlisted classification structure that identifies an individual position or a group of closely related positions on the basis of the duties involved. The term used to designate a military specialty differs according to the military service concerned, such as "military occupational specialty," used by the Army and Marine Corps; "Air Force specialty," used by the Air Force; and "Navy enlisted classification," used by the Navy.

**Appendix II: How the Selective Reenlistment
Bonuses Are Paid**

Table 3: Eligibility for Zones A, B, and C under the Selective Reenlistment Bonus Program

Calculated zone	Eligibility characteristics
Zone A	<ul style="list-style-type: none">• Individual must have at least 17 months of continuous active duty service (other than active duty for training as a reservist) but not more than 6 years of active duty on the date of reenlistment.• Individual must not have previously received a zone A selective reenlistment bonus.
Zone B	<ul style="list-style-type: none">• Individual must have completed at least 6 but not more than 10 years of active service (including active duty for training as a reservist) on the date of reenlistment.• Individual must not have previously received a zone B selective reenlistment bonus.
Zone C	<ul style="list-style-type: none">• Individual must have completed at least 10 but not more than 14 years of active service (including active duty for training as a reservist) on the date of reenlistment.• Individual must not have previously received a zone C selective reenlistment bonus.

Source: DOD Financial Management Regulation Volume 7A, Chapter 9, Section 090201.

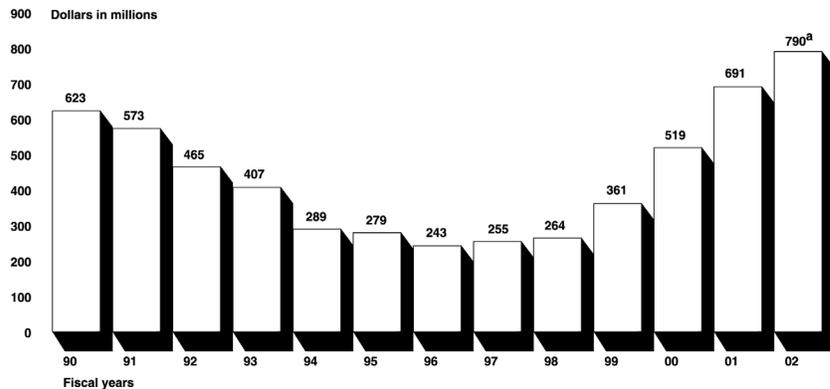
Appendix III: Growth of the Services' Selective Reenlistment Bonus Programs and Initial Payments

This appendix describes the growth of the program in constant dollars and growth in the services' initial payments during fiscal years 1997-2002.

Program Growth

The services' budgets for the selective reenlistment bonus program have grown during fiscal years 1990-2001. During the military drawdown in the early to mid-1990's, the cost of the program declined. During the period from fiscal year 1996-2002, the budgets of the services' programs grew from \$243 million to an estimated \$790 million in constant (inflation adjusted) dollars. Figure 2 displays the cost of the retention bonus program in constant 2002 dollars during fiscal years 1990-2002.

Figure 2: Cost of the Selective Reenlistment Bonus Program in Constant 2002 Dollars, Fiscal Years 1990-2002



^aCurrent estimate.

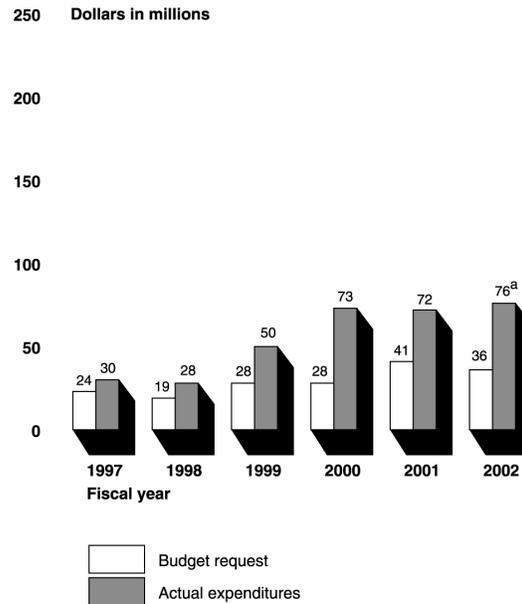
Source: GAO's analysis of Department of Defense, *Military Compensation Background Papers*, fifth edition, September 1996 and the services' budget justification books.

Growth in Initial Payments by the Services

Army

The Army's Selective Reenlistment Bonus Program budget for initial payments grew from \$30 million to \$72 million during fiscal years 1997-2001. (See fig. 3.) During fiscal years 1997-2001, the Army exceeded its appropriated budget by approximately \$49 million after taking into account an additional \$64 million that Congress added to the Army's initial payments budget over this period.

Figure 3: Army's Selective Reenlistment Bonus Program's Initial Payments, Budget Request, and Reported Expenditures, Fiscal Years 1997-2002



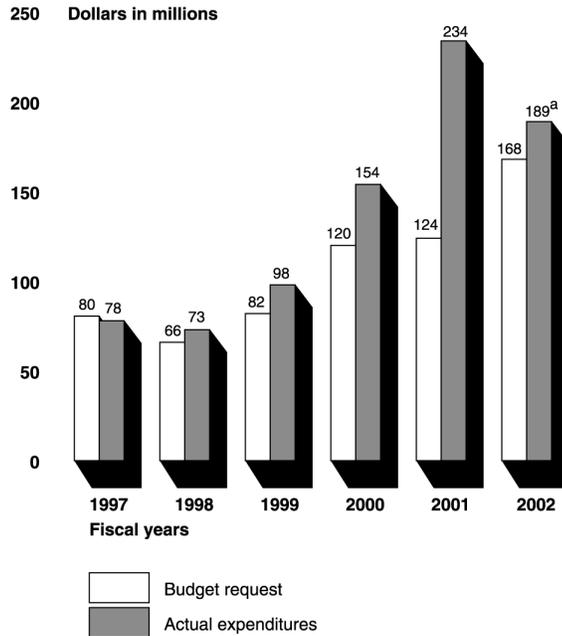
^aCurrent estimate.
 Source: The Army's budget justification books.
 Note: Final expenditure data for fiscal year 2002 will not be available until December 2002.

Appendix III: Growth of the Services' Selective Reenlistment Bonus Programs and Initial Payments

Navy

The Navy, which recently has had the largest Selective Reenlistment Bonus Program, also experienced budget growth in its initial payments from \$78 million to \$234 million during fiscal years 1997-2001. (See fig. 4.) During fiscal years 1997-2001, the Navy exceeded its appropriated budget by more than \$121 million after taking into account an additional \$44 million that Congress added to the Navy's initial payments budget over this period.

Figure 4: Navy's Selective Reenlistment Bonus Program's Initial Payments, Budget Request, and Reported Expenditures, Fiscal Years 1997-2002

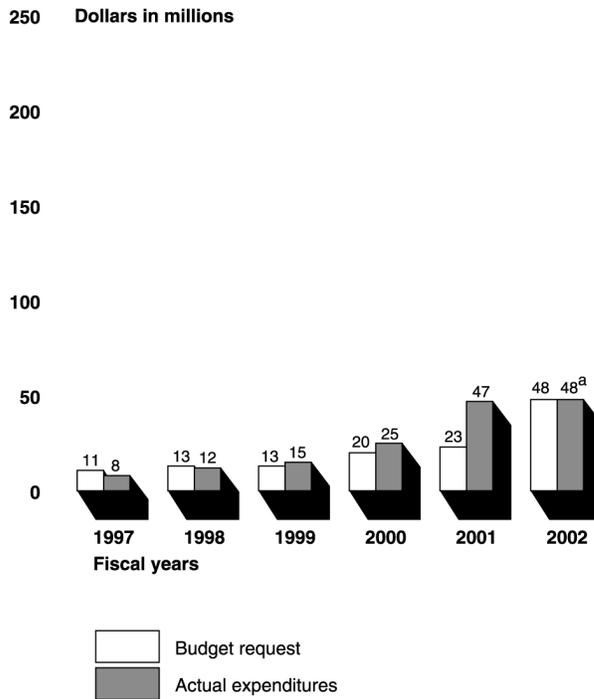


^aCurrent estimate.
 Source: The Navy's budget justification books.
 Note: Final expenditure data for fiscal year 2002 will not be available until December 2002.

Marine Corps

The Marine Corps, from fiscal year 1997 through 2002, had the smallest Selective Reenlistment Bonus Program. The Marine Corps' program is also unique because in fiscal year 2001, it began making lump-sum bonus payments. This resulted in a significant increase in the program's cost for that year. During fiscal years 1997-2000, the Marine Corps' program budget for initial payments grew annually from \$8 million to \$25 million. However, the transition to lump-sum payments in fiscal year 2001 caused the Marine Corps' budget for new payments to exceed \$46 million. (See fig. 5.)

Figure 5: Marine Corps' Selective Reenlistment Bonus Program's Initial Payments, Budget Request, and Reported Expenditures, Fiscal Years 1997-2002

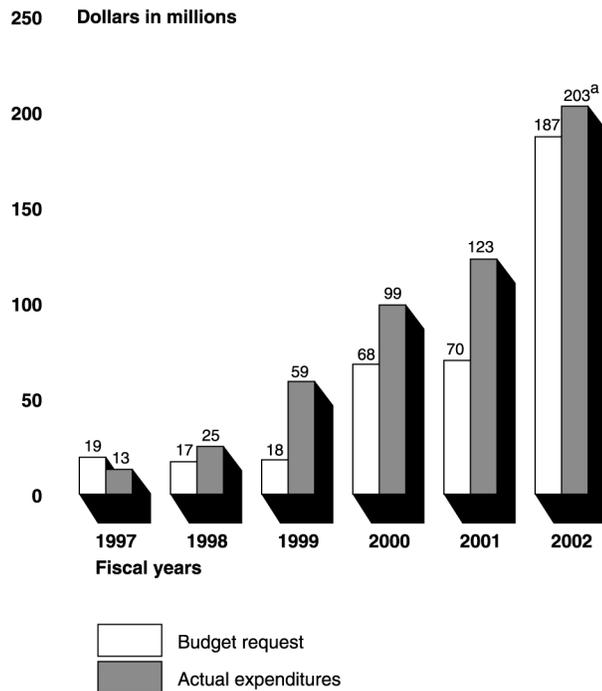


^aCurrent estimate.
 Source: The Marine Corps' budget justification books.
 Note: Final expenditure data for fiscal year 2002 will not be available until December 2002.

Air Force

During fiscal years 1997-2001, the Air Force's reenlistment bonus budget for initial payments grew from \$13 million to \$123 million, an 846-percent increase. (See fig. 6.) During fiscal years 1997-2001, the Air Force exceeded its appropriated budget by more than \$70 million after taking into account an additional \$57 million that Congress added to the Air Force's initial payments budget over this period.

Figure 6: Air Force's Selective Reenlistment Bonus Program's Initial Payments, Budget Request, and Reported Expenditures, Fiscal Years 1997-2002



^aCurrent estimate.
 Source: The Air Force's budget justification books.
 Note: Final expenditure data for fiscal year 2002 will not be available December 2002.

Appendix IV: Comments from the Department of Defense



PERSONNEL AND
READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

NOV 19 2002

Mr. Derek B. Stewart
Director, Defense Management Issues
United States General Accounting Office
Washington, DC 20548

Dear Mr. Stewart:

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-03-149, "MILITARY PERSONNEL: Management and Oversight of Selective Reenlistment Bonus Program Needs Improvement," dated October 17, 2002 (GAO Code 350194). We appreciate the opportunity to comment.

The Department does not agree with the report's conclusion that DoD cannot be sure that Selective Reenlistment Bonus (SRB) programs are being implemented as intended. Program controls, through the Planning, Programming, and Budgeting System, and Department policy, strike a reasonable balance between oversight and decentralized execution. While higher retention in the critical skills does impact overall retention, the Department does not use the SRB program to simply meet overall end strength goals. Rather, the SRB program is used to shape the force, with each participating skill evaluated on its merits, independent of aggregate retention outcomes. The Services continue to use the SRB program for critical skills where it is essential to maintain the health, balance, and readiness of the force. In addition, the Services monitor and adjust their SRB offers in response to the retention behavior of individual occupational specialties.

The GAO notes that DoD's budget for SRB has nearly tripled since 1998. SRBs awarded relate directly to required versus actual reenlistments in the critical skills. This is not unexpected given that SRB expenditures dropped steadily in the 1990s, by a little over 40 percent from 1990 to 1998. Subsequently, as the military emerged from the drawdown, the Services began experiencing substantial retention shortfalls in critical skills exacerbated by a strong economy that drove unemployment rates to their lowest levels in more than 30 years. Naturally, the SRB expenditures started to increase in response.

Total growth in this program over the past few years is a consequence, in part, of DoD's downsizing programs in the mid-1990s. Accession levels were reduced to meet end strength targets. As a result, certain skill inventories within the Services became unbalanced, leaving significant experience shortfalls in critical mid-grade enlisted ranks -- a condition that increased retention challenges and placed extra pressure on retention tools to achieve retention rates above the historical averages (to yield the same retention number from a smaller cohort).

**Appendix IV: Comments from the Department
of Defense**

The enclosure addresses each of the four recommendations identified by the GAO. In general, the Department does not concur with the imposition of new and more centralized program execution validations, which would serve to inhibit a Service's speed and flexibility in responsively attacking emergent readiness challenges. However, the GAO review was constructive, and the Department will integrate appropriate adjustments to the management of this important program.

The Department appreciates the opportunity to comment on the draft report.

Sincerely,


Charles S. Abell
Principal Deputy

Enclosure:
As stated

GAO-03-149/GAO CODE 350194

“MILITARY PERSONNEL: MANAGEMENT AND
OVERSIGHT OF SELECTIVE REENLISTMENT
BONUS PROGRAM NEEDS IMPROVEMENT”

DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense require the Services to apply all the criteria they have established for selecting specialties under their Selective Reenlistment Bonus Programs. In the case of the Army, criteria should be established for selecting critical specialties. (Page 21/Draft Report)

DoD RESPONSE: Partially concur. The established criteria permit the Services to selectively target their resources to meet service-unique retention needs in a judicious and cost-effective manner. The Services define the critical skills for their mission accomplishment and these may change over time. Predicting reenlistment behavior of varying specialties is a complex task. Thus, the criteria were written to provide flexibility for management of critical skills to meet shortfalls in their inventory. The Department’s criteria are sound, and the Services’ processes are balanced.

Even though the Army presently does not have a SRB regulation at this time, criteria it uses in its SRB program are sound. In administering the SRB program, standards are in place to review historical and projected strengths, current and historical retention data, replacement costs, levels of fill by skill level and readiness. These tools are used to determine if a specialty needs a bonus to ensure the required fill and experience balance across the force profile. Senior level Army officials review and approve awarding of bonuses.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense require the Services to manage their programs to stay within their appropriations or, if circumstances require, provide the Office of the Secretary of Defense with adequate justification for increased expenditures over appropriated amounts. (Page 21/Draft Report)

DoD RESPONSE: Partially concur. The Department subscribes to the proposition that program execution should be consistent with the appropriations allocated to that purpose. The extent to which a Service can execute to their fiscal year budget for the SRB program depends on the success of retention programs achieving needed reenlistments during the year of execution. We are concerned with the loss of flexibility imposed by this recommendation. Budget submission timelines require reenlistment forecasts two years prior to execution. Intervening changes in the economy and labor market drive changes to actual reenlistment rates, which can vary significantly from forecasted rates. To maintain a competitive edge over the external labor market, the Services need the flexibility to adjust SRB execution to meet operational needs.

Management of the program during the year of execution requires periodic reviews of the skills and real time opening and closing of SRB offerings based on the Service projection to meet annual retention goals. The decision to open or close skills for SRB have a profound effect on the funds available and year of execution reprogramming is not uncommon. Meeting the authorized end strength and maintaining a high personnel readiness posture requires careful

management and decisive actions – we are confident that the system and processes are in place to meet these objectives.

With respect to expenditures above amounts budgeted for a given fiscal year, the Services are already required to submit for pre-approval any reprogramming above \$10 million between budget authority lines. We do not see that any value would be added by adding a new administrative requirement for the Services to seek OSD approval for moving amounts below that amount. We are committed to managing these programs in such a way as to provide the greatest return to the Department and remain within our funding obligations.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense require that the Under Secretary of Defense for Personnel and Readiness issue an instruction that provides the Services with guidance for administering and selecting specialties for inclusion in their programs. (Page 21/Draft Report)

DoD RESPONSE: Concur. The Department has drafted and is staffing a new DoD Instruction 1304.22 that will govern procedures for administration of the Selective Reenlistment Bonus program, which will facilitate the more efficient administration of the Service bonus programs. While there is no current instruction, the bonus policy and program guidelines are already in effect either by virtue of being in the last issuance or having been implemented via policy and procedural Directive-type memoranda.

RECOMMENDATION 4: The GAO recommended that the Secretary of Defense require that the Under Secretary of Defense for Personnel and Readiness conduct annual reviews of the Selective Reenlistment Bonus Program as required by DoD’s directive. (Page 21/Draft Report)

DoD RESPONSE: Partially concur. The future DoD directive will not require a formal annual review since the SRB program execution is routinely reviewed each year within the context of the Planning, Programming, and Budgeting System, with adjustments applied up or down, as judged appropriate by OSD. Moreover, the Department already requires the Services to submit for approval any reprogramming action above \$10 million between budget authority lines needed to fund proposed adjustments to the bonus program. The Services’ currently manage their SRB programs carefully and offer bonuses sparingly. At least annually, the Services examine the health of individual occupational specialties to shape a sustainable force, which will meet readiness needs today and in the future. Each Service prepares a plan for use of bonuses and the plans are carefully reviewed in the course of the Department’s Planning, Programming, and Budgeting process, Congressional testimony, and again by the Office of Management and Budget and the Congress.

Additionally, as part of the Secretary of Defense’s Annual Defense Report, the Department will provide a listing of DoD critical skills, which includes an update on manning shortages or skill level imbalances in the specialty, retention objectives for the specialty, any bonuses paid to this skill, training investment and replacement costs for those qualified in the specialty, and other pertinent information. This process is also being reviewed within the DoD Human Resource Strategy. Finally, SRB program execution outcomes will be added as a review item during “Status of Force” reviews, presently conducted each quarter.

GAO's Mission

The General Accounting Office, the investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to daily E-mail alert for newly released products" under the GAO Reports heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
 TDD: (202) 512-2537
 Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, managing director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548